

Message Text

CONFIDENTIAL

PAGE 01 BRIDGE 00130 232107Z

64

ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 EUR-25 TAR-02 SPC-03 AID-20

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15

AGR-20 DRC-01 /207 W

----- 066109

P 231325Z JAN 74

FM AMEMBASSY BRIDGETOWN

TO SECSTATE WASHDC PRIORITY 0000

INFO AMEMBASSY GEORGETOWN

AMEMBASSY KINGSTON

AMEMBASSY PORT OF SPAIN

C O N F I D E N T I A L BRIDGETOWN 0130

E.O. 11652: GDS

TAGS: EFIN ECON ETRD EGEN

SUBJ: POSSIBLE PEGGING OF BARBADOS CURRENCY TO US DOLLAR

REF: BRIDGETOWN A-185 (1973)

STATE PASS EXIM AND TREASURY

1. GOB MAY BE CONSIDERING TYING BARBADOS' CURRENCY TO US DOLLAR IN LIGHT OF UNCERTAIN FUTURE OF UK ECONOMY AND POUND STERLING. RECENT DECLINE OF STERLING HAS CREATED TURBULENCE IN LOCAL BUSINESS CIRCLES AND GOB, FACED WITH 1973 INFLATION RATE OF 25.9 PERCENT, FEARS FURTHER INFLATIONARY PRESSURES THAT WILL ENSUE AS POUND DECLINES. GOB ALSO FEARS THAT UK MAY BECOME UNWILLING OR UNABLE TO CONTINUE PRESENT GUARANTEED SUPPORT OF BARBADOS DOLLAR AT 4.80/1.

2. LOCAL US BANKERS, POINTING TO ALLEGED RECENT GOB MEETING IN US WITH FEDERAL RESERVE OFFICIALS (AND POSSIBLY IMF),
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRIDGE 00130 232107Z

CLAIM THAT MOVE FROM STERLING TO US DOLLAR COULD TAKE PLACE

AT ANY TIME. SOME (BUT NOT ALL) LOCAL BANKERS ARE OF VIEW THAT PEGGING BARBADOS CURRENCY TO US DOLLAR WOULD RESULT IN INCREASED AVAILABILITY OF DOLLARS LOCALLY AND SOME EASING OF PRESENT TIGHT MONEY SITUATION. MOST ALSO HOLD VIEW THAT TIE TO DOLLAR WOULD RESULT IN EARLIER READJUSTMENT OF LOCAL TARIFF SCHEDULES (AND COMMONWEALTH PREFERENCES).

3. UK'S SUPPORT GUARANTEE FOR BARBADOS DOLLAR UNDER BASEL AGREEMENT GUARANTEES GOB REDEMPTION OF ITS ASSETS IN UK AT 4.80/1 RATE. THIS AGREEMENT EXPIRES MARCH 31, 1974. SOME LOCAL FINANCIERS CLAIM THAT UK WILL WISH TO CONTINUE GUARANTEE IN ORDER TO KEEP GOB (AND OTHER COMMONWEALTH) RESERVES; HOWEVER THERE IS CONSIDERABLE DOUBT THAT UK HAS ABILITY TO MAINTAIN SUPPORT AT SUCH A HIGH LEVEL FOR VERY LONG. MANY FEEL THAT POUND WILL NOT RETURN TO 4.80/1 LEVEL FOR SOME TIME, IF EVER, AND THAT ONLY REASONABLE SOLUTION FOR BARBADOS IS TO OPT FOR US DOLLAR PEG TO CONTROL INFLATIONARY PRESSURES.

4. OF IMMEDIATE CONCERN TO GOB ARE EXCHANGE LOSSES TO BE SUFFERED ON SUGAR EXPORTS (WHICH ARE ALREADY PRICED BELOW PRODUCTION COSTS; ACCORDING TO WISA); EXCHANGE RATE LOSSES BEING SUFFERED BY SMALLER LOCAL BUSINESSMEN WHO HAVE INSUFFICIENT FUNDS TO PROVIDE THEMSELVES FORWARD COVERAGE, AND, OF COURSE, BURGEONING INFLATION, BEING EXACERBATED BY POUND'S DECLINE.

5. GOB CENTRAL BANK, IN RESPONSE TO EMBASSY QUERY, RECOGNIZED POSSIBLE NEED TO REACH DECISION IN NEAR FUTURE ON STERLING TIE BUT CLAIMED THAT ANY READJUSTMENT WAS IMPRACTICAL PRIOR TO MARCH 31 BECAUSE OF STERLING AGREEMENT AND FACT THAT BARBADOS IS STILL IN PROCESS OF REDEEMING EASTERN CARIBBEAN CURRENCY AUTHORITY (ECCA) CURRENCY. (GOB WILL ISSUE ITS OWN COINAGE FEB 4.) CENTRAL BANK MANAGING DIRECTOR TIN TUN (ON LOAN TO CENTRAL BANK FROM IMF) AGREED WITH VIEW THAT STERLING IS NOT LIKELY TO RETURN TO 4.80/1 LEVEL, BUT HE CLAIMED NO GOB PLANS EXIST FOR RE-PEGGING BEFORE EXPIRATION OF SUPPORT AGREEMENT AND FULL ISSUANCE OF BARBADIAN CURRENCY. HE ADMITTED THAT SUCH MOVE WOULD HAVE TO BE CONSIDERED SUBSEQUENT TO THAT TIME. (EMBASSY UNDERSTANDS THAT CENTRAL BANK GOVERNOR COURTNEY BLACKMAN IS CURRENTLY IN US ENROUTE FROM C-20 MEETING IN ROME TO BARBADOS, WHERE HE IS DUE JAN 23.)
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRIDGE 00130 232107Z

Y. WE HAD EARLIER REPORTED THAT DIRECTION OF TRADE AND LOOSENED TIES WITH UK WOULD EVENTUALLY ORIENT BARBADOS FURTHER TOWARD NORTH AMERICA (REFAIR). APPARENTLY WEAKNESS OF STERLING IS PRECIPITATING A DECISION SOONER RATHER THAN LATER. WE ARE NOT ABLE TO TELL AT THIS STAGE WHAT INTENTIONS OF GOB ARE. SOME CLAIM THAT RE-TYING OF BARBADOS CURRENCY TO US DOLLAR IS POSSIBLE AND EVEN ADVISABLE BEFORE MARCH 31, 1974 DESPITE

CENTRAL BANK DENIALS. GOB POLICY MAY WELL DEPEND MORE ON HEALTH OF STERLING THAN LOCAL OR REGIONAL FACTORS. IT WOULD SEEM THAT ANY FINAL GOB DECISION WOULD BE SUDDEN AND UNANNOUNCED TO DISCOURAGE SPECULATIVE GAIN.

7. MAIN SIGNIFICANCE OF GOB CURRENCY REORIENTATION WOULD BE FACT THAT EVENTUAL TARIFF REALIGNMENTS WOULD SEEM TO FAVOR US OVER OTHER COUNTRIES. MAJOR IMMEDIATE EFFECT OF DOLLAR PEG WOULD BE REVERSAL OF IMPROVING EXCHANGE RATE ADVANTAGE ENJOYED BY DOLLAR OVER BARBADOS DOLLAR BECAUSE OF STERLING DECLINE. CONVERTIBILITY WOULD PROBABLY NOT BE IMMEDIATELY EFFECTED BEING AT THIS STAGE MORE A FUNCTION OF GOB POLICIES THAN CURRENCY ORIENTATION.

DONOVAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, INFLATION, MONETARY AGREEMENTS, CURRENCY STABILITY, LOCAL CURRENCIES, STERLING (CURRENCY), DEVALUATIONS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BRIDGE00130
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: BRIDGETOWN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740123/aaaaauug.tel
Line Count: 129
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: BRIDGETOWN A-185 (1973)
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2002 by boyleja>; APPROVED <26 DEC 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE PEGGING OF BARBADOS CURRENCY TO US DOLLAR
TAGS: EFIN, ECON, ETRD, EGEN, BB, UK, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005